

## Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 LIMA 03839 01 OF 02 092138Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

EA-06 /099 W

----- 083906

P R 092035Z MAY 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 5078

INFO AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 3839

E.O. 11652: GDS

TAGS: ENRG, EGEN, EINV, PFOR, PE

SUBJ: PERUVIAN OIL - DRILLING CONTINUES WITHOUT SUCCESS  
NUMEROUS COMPANIES CONSIDER WITHDRAWING

REFS: LIMA 2091, LIMA 1821, TRESIERRA-MUNRO MEMCON OF  
APRIL 21, 1975 (ALL NOTAL)

1. SUMMARY: 1975 IS THE KEY YEAR FOR PERU'S JUNGLE AND COASTAL EXPLORATION PROGRAM WHEN MOST OF THE 18 FOREIGN OIL COMPANIES OPERATING HERE WILL HAVE BEGUN AND/OR COMPLETED THEIR DRILLING. TO DATE ONLY ONE OF THE 18 COMPANIES, OCCIDENTAL, HAS FOUND COMMERCIAL QUANTITIES OF OIL. FIVE OTHER WILL PROBABLY DECIDE TO CEASE DRILLING BEFORE COMPLETION OF THEIR MANDATORY SCHEDULES AND ONE NOT TO DRILL AT ALL BECAUSE ITS SEISMIC WORK INDICATED DRILLING WOULD NOT BE WORTHWHILE. THREE OTHERS HAVE ALREADY REDUCED THEIR DRILLING PROGRAMS TO ONE OR TWO WELLS BEFORE BEGINNING DRILLING.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 03839 01 OF 02 092138Z

2. WHILE ONLY ONE COMPANY HAS OFFICIALLY NOTIFIED PETROPERU THAT IT IS ABANDONING ITS DRILLING PROGRAM,

OTHER WILL PROBABLY BE DOING SO SHORTLY. ALTHOUGH IT IS STILL PREMATURE TO PREDICT THAT THE PERUVIAN JUNGLE (AND COASTAL) EXPLORATION IS A "BUST", TO DATE IT GIVES NO INDICATION OF PRODUCING EVEN A MINOR "BOOM." FURTHER, ALTHOUGH IT IS POSSIBLE THAT THE FINANCIAL FEASIBILITY OF THE NORTH-ANDEAN PIPELINE WILL BE MARGINALLY PROFITABLE, IT REMAINS UNCLEAR WHETHER THE GOP LEADERS ARE FULLY AWARE OF THE ACTUAL STATUS OF DRILLING OPERATIONS. THE PRESIDENT AND THE CABINET HAVE, DURING THE LAST SEVERAL YEARS, PUBLICLY AT LEAST, BLITHELY ASSUMED THAT LARGE COMMERCIAL QUANTITIES OF OIL WOULD BE FOUND. WHEN THE IMPACT OF THE CURRENT WITHDRAWAL PROGRAM BECOMES MORE WIDELY KNOWN TO THEM, IT IS NOT UNLIKELY THAT VARIOUS SCAPEGOATS MAY BE SOUGHT, POSSIBLY INCLUDING FOREIGN OIL MULTINATIONALS AND NUMEROUS CIVILIAN MANAGERS IN PETROPERU. THIS MESSAGE REVIEWS THE CURRENT STATE OF PLAY AND POSSIBLE POLICY RAMIFICATIONS FOR US-PERUVIAN BILATERAL RELATIONS. END SUMMARY.

3. THE EMBASSY HAS OBTAINED A SEMI-CLASSIFIED PETROPERU DOCUMENT SUMMARIZING THE CURRENT STATUS OF THE 18 FOREIGN OIL COMPANIES OPERATING UNDER PERU MODEL CONTRACTS. WE HAVE IN ADDITION JUST RECEIVED A VERY THOROUGH COMMENTARY FROM A KNOWLEDGEABLE U.S. OIL COMPANY EXECUTIVE HERE ABOUT GENERAL PROSPECTS AT THE PRESENT TIME. THERE FOLLOWS A REVIEW OF EACH COMPANY'S STATUS:

A. COMPANIES WHICH HAVE BEEN DRILLING:

(1) ARCO (BLOCK NO 14) - ARCO AGREED TO DRILL TWO ADDITIONAL WELLS WHEN THEIR JAPANESE PARTNERS JOINED THEIR VENTURE (SEE LIMA A-219, 9/30/74). ARCO HAS DRILLED THE FOUR WELLS CALLED FOR IN ITS CONTRACT, BUT HAS DECIDED NOT TO DRILL THE ADDITIONAL TWO. IT HAS FORMALLY REQUESTED PERMISSION TO PAY A FORFEITURE FEE OF \$2 MILLION, WHICH PETROPERU HAS ACCEPTED, RATHER THAN SPEND THE \$6-8 MILLION THE OTHER TWO WELLS WOULD HAVE COST. IT WILL LEAVE SHORTLY.

(2) BRITISH PETROLEUM (BLOCK NO 13) - IT HAS DRILLED  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 03 LIMA 03839 01 OF 02 092138Z

ITS THREE WELLS AHEAD OF SCHEDULE WITH NO COMMERCIAL RESULTS. IT HAS NOT OFFICIALLY NOTIFIED PETROPERU THAT IT WILL LEAVE, BUT MOST OBSERVERS BELIEVE IT TOO WILL DO SO SHORTLY.

(3) UNION (BLICK NO 2) - DRILLED FOUR DRY HOLES. COMPANY IS ALSO CONSIDERING PULLING OUT. PETROPERU MAINTAINS THAT ITS RECENT VALENCIA FIND IN PETROPERU'S BLOCK NEXT DOOR (SEE LIMA 2976 MAY PROVE ATTRACTIVE ENOUGH TO INDUCE UNION TO DRILL ANOTHER WELL. UNION OFFICIALLY HAS UNTIL OCTOBER 1975 TO DECIDE WHAT TO DO AND WILL PROBABLY DECIDE

TO LEAVE.

(4) AMOCO (BLOCK NO 10) - THEY HAVE DRILLED THREE DRY WELLS AND HAVE MOVED THEIR RIG TO THE LOCATION OF THEIR FOURTH WELL. THE COMPANY IS ACTIVELY CONSIDERING FORFEITING \$1 MILLION AND NOT DRILLING ITS FOURTH WELL.

(5) AMERADA HESS (BLOCK NO 11) - ITS SEISMIC WORK INDICATED NO STRUCTURES SO IT HAS DECIDED NOT TO DRILL IN ITS BLOCK. IT HAS REQUESTED PERMISSION TO EXPLORE ANOTHER BLOCK, BUT HAS NOT RECEIVED ANY RESPONSE FROM PETROPERU. (NOTE: AUTHORIZATION TO OPEN UP NEW BLOCKS WOULD RUN CONTRARY TO THE FIRM POSITION TAKEN BY THE MINES MINISTRY AGAINST GRANTING CONTRACTS IN UNEXPLORED BLOCKS AND IS THEREFORE VERY UNLIKELY.) WILL PROBABLY PULL OUT.

(6) PHILLIPS (BLOCK NO 7) - IT HAS FINISHED TWO DRY HOLES AND IS NOW WORKING ON ITS THIRD WELL WHICH IS CONSIDERED BY PHILLIPS MANAGEMENT TO BE ITS BEST "POTENTIAL" WELL. IT HAS TO DRILL FOUR WELLS BY JANUARY 18, 1976, BUT HAS ALSO HAD DREDGE PROBLEMS AND HAS APPLIED A FORCE MAJEURE CLAUSE IN ITS CONTRACT BECAUSE IT IS BEHIND SCHEDULE.

(7) GETTY (BLOCK NO 3) - IT HAD PROBLEMS WITH ITS FIRST WELL SO HAS RENTED A RIG FROM BP AND IS DRILLING ITS SECOND AND THIRD WELLS SIMULTANEOUSLY.

(8) TENNECO (COASTAL BLOCK) - TENNECO HAS DRILLED ITS EIGHT WELL WITHOUT SUCCESS (SEE LIMA A-43) AND HAS OFFICIALLY ASKED FOR A TWO-YEAR EXTENSION IN ORDER TO BRING IN FURTHER HEAVY EQUIPMENT; HOWEVER, IN FACT, IT IS ALSO  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 04 LIMA 03839 01 OF 02 092138Z

CONSIDERING WITHDRAWAL.

(9) BELCO (COASTAL BLOCK) - UNDER BELCO'S NEW PERU MODEL CONTRACT IT WAS OBLIGED TO DRILL FOUR WELLS BY AUGUST 1975 AND HAS DONE SO WITHOUT SUCCESS. THEY ARE NOW DRILLING THEIR FIFTH WELL, ALSO WITHOUT SUCCESS. FURTHER, ITS REGULAR DAILY RATE OF PRODUCTION, WHICH OVER THE LAST FEW YEARS HAS AVERAGED ABOUT 40,000 B/D, IS NOW DECLINING AND IN FEBRUARY WAS DOWN TO 32,000 B/D, ACCORDING TO THE COMPANY. IT EXPECTS TO REMAIN INDEFINITELY, HOWEVER, SINCE IT HAS POTENTIAL RESERVES FOR SOME YEARS.

CONFIDENTIAL

NNN

CONFIDENTIAL POSS DUPE

PAGE 01 LIMA 03839 02 OF 02 092216Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

EA-06 /099 W

----- 084328

P R 092035Z MAY 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 5079

INFO AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 3839

(10) OCCIDENTAL (BLOCK NO 1) - OCCIDENTAL HAS COMMERCIAL QUANTITIES OF OIL, BUT DURING LAST TWO WEEKS HAS FAILED TO FIND OIL IN TWO NEW STRUCTURES (ITS SEVENTH AND EIGHTH) AND HAS CLOSED DOWN ONE OF ITS TOW RIGS (SEE LIMA 1897).

(11) SUN (BLOCK NO 6) - IT HAS DRILLED ONE WELL AND IS DRILLING ITS SECOND, BUT HAS SERIOUS PROBLEMS WITH THIS WELL. HAS UNTIL SEPTEMBER 1976 TO FINISH ITS FOUR WELLS AND PLANS TO DRILL ALL FOUR.

(12) DEMINEX (BLOCK NO 12) - BEGAN DRILLING THIS MONTH, BUT HAS SERIOUS PROBLEMS WITH THE WELL; BEGAN DRILLING AHEAD OF SCHEDULE.

B. COMPANIES SCHEDULED TO DRILL IN NEAR FUTURE:

(13) OCEANIC (BLOCK NO 4) - DOUBTFUL THAT IT WILL ACTUALLY DRILL. IT HAS UNTIL NOVEMBER 30, 1975, AND MUST FINISH ITS FOUR WELLS BY MAY 1977. IT IS NOW PROGRAMMING  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 02 LIMA 03839 02 OF 02 092216Z

ITS DRILLING OPERATIONS, BUT ITS TWO PARTNERS, EL PASO OIL AND CHARTER, HAVE ALREADY ALLEGEDLY PULLED OUT OF THEIR

AGREEMENT.

(14) CITIES SERVICE AND ANDES (BLOCKS NOS 46 AND 47)  
THEY ARE PARTNERS IN EACH OTHER'S BLOCK; EACH COMPANY IS AN  
OPERATOR IN ONE BLOCK. CITIES' DRILLING EQUIPMENT IS IN  
MATARANI WAITING TO BE TRANSPORTED TO DRILLING SITE AND  
ANDES EQUIPMENT WILL ARRIVE THIS MONTH. THEY ARE REQUIRED  
TO DRILL THEIR FIRST WELLS BY NOVEMBER AND HAVE UNTIL NOVEMBER  
1977 TO DRILL THEIR WELLS. (COMMENT: PETROPERU OFFICIAL  
TOLD EMBASSY OFFICER THAT THIS DRILLING, IN THE FAR CORNER  
OF MADRE DE DIOS ( THE MOST REMOTE PART OF PERU), MAKES  
NO ECONOMIC SENSE BECAUSE OF THE POTENTIAL MULTI-BILLION  
DOLLAR COST OF A PIPELINE TO TRANSPORT OIL FROM THIS LOCATION  
TO THE COAST. FURTHER, THESE COMPANIES WILL NOT BENEFIT  
FROM LOGISTICAL SUPPORT THAT THE OTHER COMPANIES DRILLING  
FURTHER NORTH SHARE AMONG THEMSELVES AND SO MAY NOT MEET  
THEIR SCHEDULES ON TIME.)

(15) SIGNAL (BLOCK NO 33) - PLANS TO START DRILLING  
IN SEPTEMBER AND HAS UNTIL JUNE 1977 TO DRILL ITS FOUR WELLS.

(16) HISPANOIL (BLOCK NO 36) - WILL USE BP AND GETTY  
RIGS AND PLANS TO START DRILLING IN SEPTEMBER, ALTHOUGH  
DUE DATE IS DECEMBER.

(17) TOTAL (BLOCK NO 39) - TOTAL HAS SERIOUS LOGISTIC  
PROBLEMS AND PLANNED TO USE UNION'S EQUIPMENT. THEY HAVE  
CANCELLED AN ORDER FOR ONE RIG AND MAY DRILL ONE WELL,  
ALTHOUGH THEY ALSO MAY DECIDE TO DROP THEIR DRILLING PROGRAM  
ALTOGETHER.

4. COMMENT: IT IS THE EMBASSY'S ASSESSMENT THAT PETROPERU'S  
MANAGEMENT, GENERALLY COMPOSED OF COMPETENT PROFESSIONALS,  
MANY TRAINED BY IPC, IS AWARE OF THE CURRENT PROBLEMS AND  
REALIZES FULL WELL THE POTENTIAL POLITICAL STORM WHICH MAY  
BREAK WHEN THE COMPANIES ACTUALLY BEGIN TO DEPART. HOWEVER,  
WE SURMISE (A VIEW SHARED BY MANY U.S. OIL EXECUTIVES HERE)  
THAT MINES MINISTER FERNANDEZ MALDONADO HAS NOT KEPT THE  
CABINET NOR THE PRESIDENT WELL INFORMED ABOUT THE LACK OF  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 03 LIMA 03839 02 OF 02 092216Z

SUCCESS IN JUNGLE OPERATIONS. THE MINISTER HAS INSTEAD  
PUBLICLY ANNOUNCED GROSSLY EXAGGERATED FIGURES ABOUT PERU'S  
PROVEN RESERVES (SEE LIMA 1945), AND GENERAL MEDIA PLAY  
ABOUT PERUVIAN OIL PROSPECTS HAS BEEN EXCEEDINGLY ROSY.  
GIVEN THE OFTEN QUIXOTIC NATURE OF PERUVIAN POLICY DECISIONS  
AND THE POLITICALLY SENSITIVE SUBJECT PETROLEUM HAS HISTORICALLY  
BEEN IN PERU, IT IS NOT BEYOND THE REALM OF POSSIBILITY THAT  
THE GOP MIGHT DECIDE TO COVER ITS TRACS IN THIS REGARD BY  
CHARGING THE COMPANIES, AND BY EXTENSION THE U.S., OF AN  
ACT OF "DESTABILIZATION." THIS COULD BE BECAUSE EITHER

(A) THE COMPANIES DELIBERATELY FAILED TO FIND OIL AS A PART OF A LARGER SCHEME TO INJURE "REVOLUTIONARY" PERU, OR (B) THEY HAVE FOUND OIL BUT ARE KEEPING THEIR FINDS SECRET UNTIL A MORE FRIENDLY REGIME TAKES POWER. WE DO NOT NECESSARILY PREDICT THIS SCENARIO WILL UNFOLD BUT PRESENT IT NOW AS ONE POSSIBILITY SHOULD THE GOP DECIDE TO SEEK SCAPEGOATS FOR THE FAILURE TO FIND SUFFICIENT QUANTITIES OF OIL.

5. BALANCING THE FOREGOING, HOWEVER, ARE THE OTHER SERIOUS ECONOMIC PROBLEMS FACING PERU AND THE FACT THAT A FULL-SCALE CAMPAIGN AGAINST THE OIL COMPANIES AND "IMPERIALISM" COULD DAMAGE PERU'S CREDIT RATING GENERALLY. FINALLY, THERE IS THE QUESTION OF THE NORTH-ANDEAN PIPELINE AND THE PROBLEMS THAT IT HAS ENCOUNTERED, BOTH IN ITS FINANCING AND CONSTRUCTION, PLUS THE MORE SERIOUS POTENTIAL PROBLEM OF THE OCCIDENTAL SPUR, WHICH IS THE SUBJECT OF A COMPANION MESSAGE.  
DEAN

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, REPORTS, EXPLORATORY DRILLING  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 09 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LIMA03839  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750164-0121  
**From:** LIMA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750567/aaaacimi.tel  
**Line Count:** 295  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 LIMA 2091, 75 LIMA 1821, 75 TRESIERRA-MUNRO  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08 SEP 2003 by CunninFX>; APPROVED <14 NOV 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PERUVIAN OIL - DRILLING CONTINUES WITHOUT SUCCESS NUMEROUS COMPANIES CONSIDER WITHDRAWING  
**TAGS:** ENRG, EGEN, EINV, PFOR, PE, ARCO, AMOCO, BRITISH PETROLEUM, UNION, AMERADA HESS, PHILLIPS  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006